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13 June 1951

Copy No. *CI-9*

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**CURRENT INTELLIGENCE BULLETIN**

DOCUMENT NO. *52*  
NO CHANGE IN CLASS. *X*  
CLASS. CHANGED TO: *TS*  
NEXT REVIEW DATE: *2009*  
AUTH: *HR 70-2*  
DATE *12-15-71* REVIEWER:

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Office of Current Intelligence

**CENTRAL INTELLIGENCE AGENCY**

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DOS and USAF review(s)  
completed.

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GENERAL

1. UK, France and the US reach accord on Yugoslav aid:

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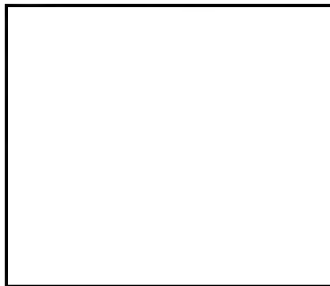


The UK, France and the US have reached an agreement on the proposed plan for emergency economic aid to Yugoslavia which calls for contributions of 23 percent, 12 percent, and 65 percent respectively. Signature of the agreement on 13 June will open the way for detailed negotiations with Yugoslavia on the precise nature of the uses to which the aid is to be applied, and for approaches to other countries to secure additional aid from them.

Comment: Protracted negotiation by the UK and France over the amount of their respective shares of the aid, as well as over certain procedural difficulties raised by the UK, had delayed this agreement for some weeks. Participation by Yugoslavia's creditors will also be sought in order to obtain adjustment of Yugoslav debt payments schedules, with the aim of maximizing the effect of Western aid in covering the anticipated Yugoslav trade deficit in the period to 1 July 1952. The present intention is to approach first the Italian Government, in recognition of Italy's primary security interest in Yugoslavia.

2. Japanese treaty talks in London and Paris showing progress:

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The British Cabinet on 11 June agreed to the US proposal that: (1) neither Chinese government sign the original multilateral peace pact with Japan; and (2) the Japanese Government be permitted to determine with which regime it will conclude a bilateral treaty.

Meanwhile, Ambassador Dulles reports from Paris that following cordial meeting with French Foreign Office officials, the French issued a communique stating in effect that there were no

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serious differences of principle between US and French views on the treaty, leaving only certain texts to be clarified. Dulles notes that the Foreign Office did not reflect the point of view given him by the French Ambassador in London on 4 June, which indicated that France would prefer to delay conclusion of the treaty.

Comment: Agreement on the Chinese problem removes the most serious obstacle to US-UK accord on the Japanese treaty. The sudden shift in the UK Cabinet's attitude toward the US proposal probably represents a desire to improve US-UK relations with regard to Far Eastern issues, rather than a reversal of the fundamental UK policy toward Communist China. In respect to the French position, French Foreign Office officials on 6 June indicated that France had no plans to delay the treaty.

#### FAR EAST

### 3. Far East Air Force raises estimate of aircraft strength in China:

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The US Far East Air Force Intelligence Staff estimates that combat air strength in China (including Manchuria) now totals 1050 planes. Exact subordination of these

aircraft is not known, but it is believed that 300-350 are Soviet Air Force planes, 100-150 are North Korean and the remainder Chinese Communist. Jet fighter strength, which includes 320 MIG-15's, is believed to be 445. More than half the planes (690) are believed based in Manchuria. The revision in strength from 900 (estimated by FEAF on 19 May) does not reflect any influx of aircraft, but is based on additional information.

Comment: The latest official US Air Force Headquarters estimate (as of 31 May) was that 1000 combat planes were based in China; of these 400 were jet fighters.

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4. Anti-US action by French officials in Indochina confirmed:

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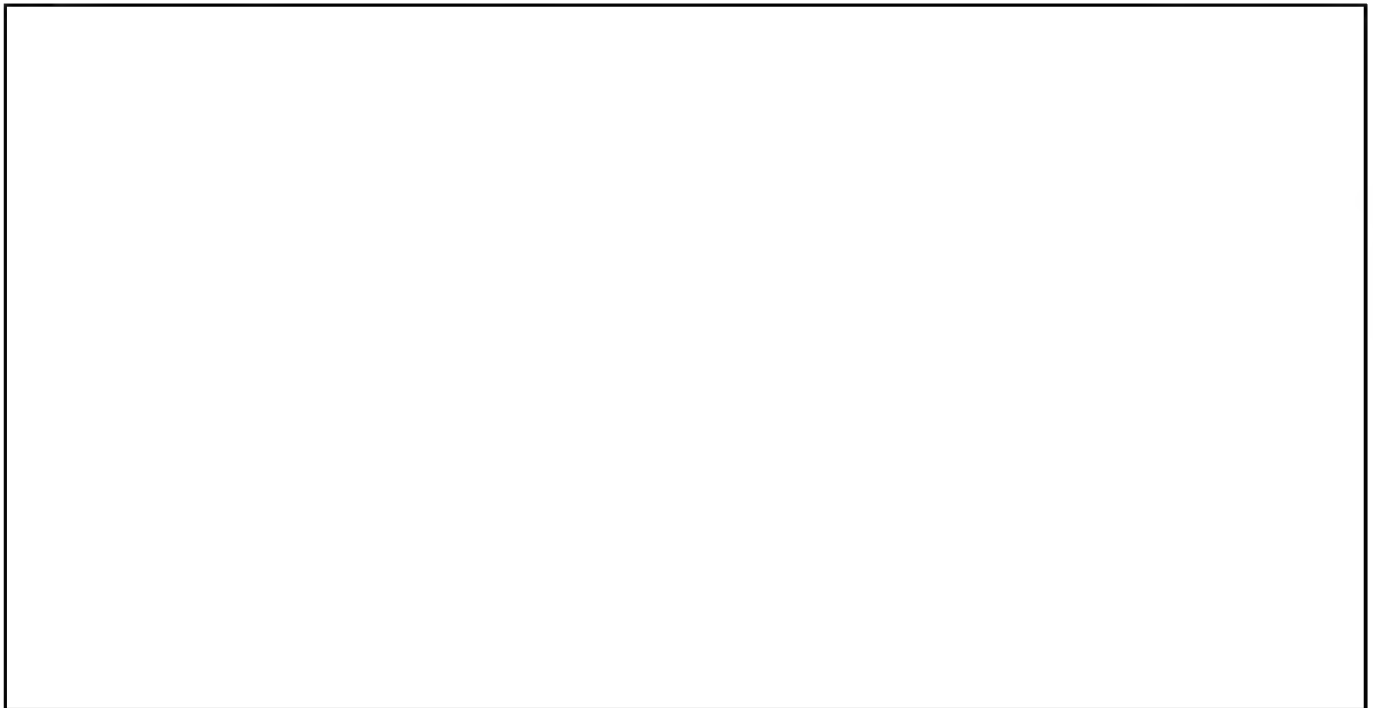


A well-placed French official has admitted to US Minister Heath that some members of General de Lattre's entourage are providing the General with erroneous and anti-

US reports, and are also trying to drive a wedge between De Lattre and Bao Dai. The source suggested that such action on the part of the General's advisers might be due to pro-Communist sympathies or to the susceptibility of certain advisers to blackmail by Communist agents.

Comment: There have been numerous reports of attempts on the part of French officials in Indochina to discredit US policies. While it is quite possible that there are Communist sympathizers among influential French officials in Indochina, anti-US action and attempts to cause trouble between De Lattre and Bao Dai could also originate with certain die-hard "colonialists" who hold very high positions in the Indochina administration.

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EASTERN EUROPE

6. Czechs reportedly holding two US jets:

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on 8 June two US jets landed at Kbely air-field five miles northeast of Prague. The pilots are reported to have stated that they became lost because their air-ground radar was out of order. The Czechoslovak authorities allegedly are developing film found on the planes and are in the process of stripping one plane. These planes probably are the two F-84 aircraft which departed from the US zone of Germany on 8 June and failed to return. The last report from them indicated that they were headed toward the Soviet Zone of Germany and Czechoslovakia.

Comment: Previous Czechoslovak charges of numerous US over-flights have resulted in an exchange of notes in which the Czechoslovak Government has declared the flights provocative and warned that consequences which may arise rest solely with the US Government.

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WESTERN EUROPE

7. Berlin's Mayor reluctantly agrees to cooperate in retaliation against Soviet interference:

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West Berlin Mayor Reuter has reluctantly agreed to instructions of the three Allied Commandants in Berlin that his city council stop sending at the demand of Soviet authorities

certificates showing the origin of the raw materials used in manufactured goods shipped by West Berlin to the West. The West Berlin city council previously had yielded to the Soviet demand for certificates, and Mayor Reuter indicated to the Allied Commandants on 10 June his belief that no counteraction should be taken until Berlin was in a stronger economic position. The commandants, however, pointed out that Berlin's whole position would be imperilled if the Allies accepted any clear Soviet violation of existing agreements, such as constituted by the demand for certificates of origin, and virtually agreed among themselves that, if no satisfactory reply was received from the Soviet Central Commission, countermeasures against East German trade would be adopted.

Comment: According to a press despatch of 12 June, such a ban is already in effect. West Berlin officials had initially indicated that they approved retaliatory measures, and that each Allied sector commandant should insist on the right to approve shipments of goods from his sector of Berlin without Soviet clearance, even if this action necessitated a small air-lift. Since that time, they have apparently become reluctant to adopt measures which they feel would result in Soviet action hindering the development of their vital trade with the West and bringing West Berlin economic life to a standstill.

8. Communist anti-remilitarization campaign has scant success in Western Germany:

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US representatives estimate that, despite exaggerated Communist claims of "overwhelming success," it is most unlikely that more than 700,000 affirmative votes were

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obtained in Western Germany in response to the Communist-sponsored "plebiscite" question. This figure is considered a most liberal estimate, probably including many votes that were obtained under false pretenses.

Comment: The Communist anti-remilitarization petition, which they termed a "plebiscite," was banned by the West German Government. The Communist press claims that on 3 - 5 June 95, 98 percent of the East German population voted "yes" on this "plebiscite" and also insists that large numbers of West Germans voted in defiance of the government ban. However, [redacted] [redacted] after the government ban, plebiscite activities were largely confined to canvassing of the usual Communist sympathizers.

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9. Italians strengthen security forces:

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Italian infringement of peace treaty limitations on its Navy is indicated by: (1) naval personnel strength of 35,000 as against a maximum of 27,500 authorized; (2) failure to scrap a number of damaged ships of types which are prohibited (two battleships, an uncompleted aircraft carrier, two light cruisers, and two submarines); and (3) the expansion of a number of naval installations. The Italian Air Force now totals 622 aircraft with an additional 298 aircraft indirectly under its control, in contrast to the 350 peace treaty limitation. The Pub-

blica Sicurezza (the National Police Guard totalling some 70,000 men) is moving toward increased militarization. Guard officers are now sent regularly to the Army's signal school and infantry school.

Comment: These reports verify previous indications of an increase in Italian Army, Navy and Air Force strengths and equipment beyond peace treaty limits. There will be opposition among some elements normally supporting the government to a further remilitarization of the Pubblica Sicurezza which might further impede passage of a Civil Defense Bill, placing civil defense under the Interior Ministry.

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